STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

NORIDIAN MUTUAL INSURANCE COMPANY

FARGO, NORTH DAKOTA

AS OF
DECEMBER 31, 1999

STATE OF NORTH DAKOTA

DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Noridian Mutual Insurance Company

Fargo, North Dakota

as of December 31, 1999, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this _____ day of _______________, 2002.

____
Jim Poolman
Commissioner of Insurance

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Fargo, North Dakota
October 26, 2001

Honorable Jim Poolman
Commissioner of Insurance
State of North Dakota
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner:

In compliance with your instructions and pursuant to statutory provisions, an examination has been made of the affairs and financial condition of

Noridian Mutual Insurance Company

at its home office at 4510 13th Avenue SW, Fargo, North Dakota. The following report is respectfully submitted.

SCOPE OF EXAMINATION

Noridian Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 1995, by the North Dakota Insurance Department. The current examination was conducted by Examiners from the North Dakota Insurance Department with assistance from the consulting firm of INS Services, Inc.

This examination has been conducted pursuant to N.D. Cent. Code § 26.1-03-19.3 and covers the four-year period from January 1, 1996, through December 31, 1999. During the course of this examination, assets were verified and valued and all known liabilities were established in accordance with statutory requirements and procedures recommended in the National Association of Insurance Commissioners (NAIC) *Examiners Handbook*. The extent of review on any given account or activity was based upon its relationship and importance to the total operation.

Accounting and other pertinent records were reviewed and test-checked to the extent deemed appropriate and a general review of the Company's operations was conducted.

The Examiners have reviewed pertinent audit working papers prepared by EideBailly, L.L.P., an independent public accounting firm. Certain of the audit work papers prepared by EideBailly, L.L.P. have been photocopied and incorporated into the Examiners' working papers, all of which assist in the preparation of this report of examination.

Details pertaining to the various phases of the examination are set forth under the appropriate caption in subsequent sections of this report.

RECOMMENDATIONS FROM PRIOR EXAMINATION REPORT

All recommendations made in the prior statutory examination report have been adequately addressed by the Company.

HISTORY

The North Dakota Hospital Service Association was incorporated on March 20, 1940, under the laws of the State of North Dakota relating to benevolent and charitable corporations. On February 28, 1964, the Articles of Incorporation were amended, changing the name to Blue Cross of North Dakota.

The North Dakota Physicians Service was incorporated on December 7, 1945, under the laws of the State of North Dakota relating to benevolent and charitable corporations. On March 27, 1971, the Articles of Incorporation were amended, changing the name to Blue Shield of North Dakota.

On July 1, 1986, the merger of the two companies was approved, with the name of the surviving company being Blue Cross and Blue Shield of North Dakota.

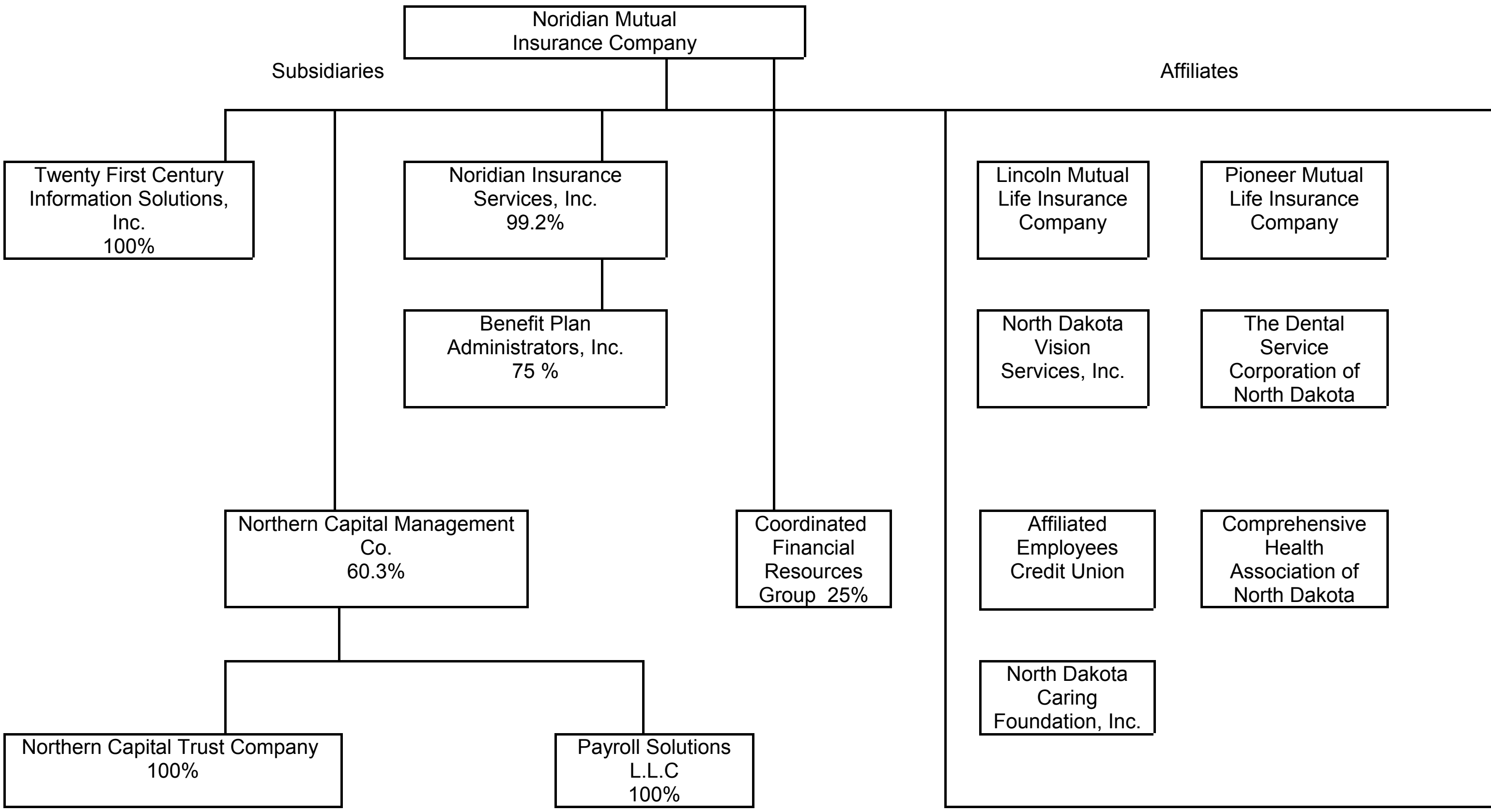
Effective January 30, 1998, the Company converted from a not-for-profit health services corporation to a nonprofit mutual insurance company and the Company's name was changed from Blue Cross Blue Shield of North Dakota to Noridian Mutual Insurance Company. The conversion also passed ownership to the policyholders and gave the Company ability to market products in states other than North Dakota.

The Company is incorporated as a nonprofit mutual insurance company and is governed by N.D. Cent. Code Chapter 26.1-12 and Section 26.1-17-33.1.

The Company is subject to the premium tax statutes of this state and has been paying a tax on premiums received on fully insured business since 1983. As of December 31, 1999, the tax rate was 1.75 percent. The Company did not participate in the North Dakota Life and Health Insurance Guaranty Association (Guaranty Association) prior to August 1, 1993; however, a legislative change effective August 1, 1993, made the Company a member of the Guaranty Association. The Company became subject to federal income taxes under the federal Tax Reform Act of 1986.

ORGANIZATIONAL CHART

The relationship of the Company to its subsidiaries and affiliates is shown in the following organizational chart:



Subsidiaries

Noridian Insurance Services, Inc. (NISI), of which the Company owns 99.18 percent, operates as an insurance agency, and provides managerial services to affiliates Lincoln Mutual Life and Casualty Insurance Company (LML) and Pioneer Mutual Life Insurance Company (PML). The common stock of NISI was valued at $1,209,847 as of December 31, 1999.

Pursuant to joint venture agreements with PML and with LML, NISI received the following management fee income for administrative and marketing services provided to the affiliates:

	1996	1997	1998	1999
PML	$ 9,135,966	$ 9,446,623	$ 9,496,977	$ 9,225,526
LML	1,084,225	1,142,215	1,175,435	1,159,457
Total	$10,220,191	$10,588,838	$10,672,412	$10,384,983

Total operating and commission expenses allocated by the Company to NISI are shown below along with NISI's net income (loss) for calendar years 1996 through 1999:

	1996	1997	1998	1999
Operating expenses	$10,242,282	$10,596,815	$10,672,394	$10,398,277
Net income (loss)	(465,794)	(411,068)	266,576	467,133

The Administrative and Related Services Agreement with NISI does not specify the method of compensation for services provided under the agreement.

It is recommended the Company amend its Administrative and Related Services Agreement with NISI to specify the method of compensation for services provided under the agreement.

Benefit Plan Administrators, Inc. (BPA), provides claims paying services for self-insured health care plans in the Dakotas and Minnesota. BPA's services include administration of defined benefit and defined contribution pension plans, eligibility systems, claims adjudication, precertification, and managed care. NISI purchased 750 shares (75%) of the 1,000 outstanding common stock shares of BPA in 1995. As a result of the purchase, the employees of BPA became employees of the Company at their current salaries and received full credit for past employment with BPA for purposes of all the Company fringe benefits.

Total operating expenses allocated by the Company to BPA for calendar year 1999 were $2,025,574 and BPA incurred a net operating gain of $18,266 in 1999.

The Company does not have an agreement with BPA for the administrative and management services provided by the Company to BPA.

It is recommended that the Company enter into a written cost-sharing agreement with BPA covering the administrative and management services provided to BPA and the basis for allocating expenses incurred by the Company.

Northern Capital Management Company (NCM), of which the Company owns a 60.29 percent interest, was incorporated in 1987 and provides investment advice and manages investment funds for individuals and business entities, including the Company. Pursuant to an agreement effective June 27, 1989, the Company has been providing long-term administration, management, marketing, and insurance services to NCM. Pursuant to the agreement, NCM employees became employees of the Company and the method of compensating the Company for these services is based on their actual reasonable cost as determined by the Company's cost accounting system. Under the agreement, compensation to the Company for the services provided by it may not exceed 110 percent of NCM's annual budget for such services.

Northern Capital Trust (NCT) was incorporated in 1990 and is a wholly-owned subsidiary of NCM. As of December 31, 1999, approximately 94 percent of the Company's securities were held in NCT under a custodial agreement. NCT had the same Board of Directors as NCM as of December 31, 1999.

Payroll Solutions, L.L.C. is a wholly-owned subsidiary of NCM and operates as a payroll processing company.

Twenty First Century Information Solutions, Inc., incorporated May 18, 1994, is a wholly-owned subsidiary of the Company formed to furnish computer services to providers which allow providers to become electronically integrated with the Company. For a monthly fee, providers receive access to membership eligibility, a provider directory, online preauthorizations and referrals, claim status information, and online HealthCare Bulletins. At December 31, 1999, this corporation had little or no activity.

Coordinated Financial Resource Group was formed to coordinate the activities of the individual companies affiliated with Noridian by facilitating communication and strategy for the affiliated members.

Affiliates

Lincoln Mutual Life Insurance Company (Lincoln) was incorporated as a mutual insurance company in 1935 under the laws of North Dakota. Its administrative offices are located in Fargo, North Dakota. In 1989, the Company entered into an operating agreement with Lincoln to provide it with administration, management, marketing, and insurance services. As of December 31, 1999, Lincoln was licensed in 14 states. Lincoln wrote approximately $21 million of direct premiums in 1999. More than 97 percent of those premiums were written in the following states:

South Dakota	71.5 percent
North Dakota	25.6 percent

The growth of Lincoln is reflected in the following schedule:

Year	Direct Premiums Written	Admitted Assets	Liabilities	Surplus
1995	$11,223,000	$25,511,000	$22,470,000	$3,040,000
1996	10,244,000	26,652,000	23,141,000	3,510,000
1997	11,106,000	27,448,000	23,374,000	4,074,000
1998	16,623,000	28,568,000	23,504,000	5,064,000
1999	21,097,000	29,569,000	23,633,000	5,936,000

The **Affiliated Employees Credit Union is** a credit union sponsored by the Company that provides limited financial services to employees of the Company and its subsidiaries and affiliates.

North Dakota Vision Services, Inc. (Vision) was incorporated on March 10, 1961, under the laws of North Dakota and is governed under N.D. Cent. Code Chapter 26.1-17 pertaining to nonprofit health service corporations. Corporate membership of Vision is composed of optometrists and physicians who are licensed in North Dakota. Vision is governed by a Board of Directors consisting of nine individuals.

Vision began offering benefits for certain optometric services in 1974. Pursuant to an agreement effective September 23, 1974, the Company began providing sales and administrative services to Vision. None of the officers or directors of the Company were serving on the Board of Directors of Vision as of December 31, 1999. One officer of the Company was serving as an officer of Vision as of December 31, 1999.

The growth of Vision is reflected in the following schedule:

Year	Premiums Earned	Admitted Assets	Liabilities	Surplus
1995	$913,000	$646,000	$226,000	$420,000
1996	996,000	638,000	228,000	410,000
1997	1,214,000	618,000	252,000	366,000
1998	1,814,000	644,000	367,000	277,000
1999	2,219,000	815,000	313,000	502,000

Dental Service Corporation of North Dakota (Dental) was incorporated on May 22, 1970, under the laws of North Dakota and is governed under N.D. Cent. Code Chapter 26.1-17 pertaining to nonprofit health service corporations. Corporate membership of Dental is composed of licensed dentists who practice in North Dakota. The affairs and business of Dental is managed by a Board of Directors.

Dental began offering benefits for certain dental care services in 1973. Pursuant to an agreement effective September 23, 1975, the Company began providing sales and administrative services to Dental. None of the officers or directors of the Company were serving on the Board of Directors of Dental as of December 31, 1999. One officer and one assistant vice president of the Company were serving as officers of Dental as of December 31, 1999.

The growth of Dental is reflected in the following schedule:

Year	Premiums Earned	Admitted Assets	Liabilities	Surplus
1995	$8,719,000	$4,090,000	$1,233,000	$2,857,000
1996	9,435,000	4,829,000	1,645,000	3,184,000
1997	10,854,000	5,731,000	2,196,000	3,535,000
1998	13,158,000	5,789,000	2,203,000	3,586,000
1999	14,448,000	6,326,000	2,215,000	4,111,000

Comprehensive Health Association of North Dakota (CHAND) is a statutorily created association organized to provide health care coverage to high-risk individuals who would otherwise not be able to obtain coverage. The Company is the lead insurer and administrator of the program. The Company is reimbursed by CHAND for its direct and indirect expenses, but is limited to receiving no more than 12.5 percent of premiums for reimbursed expenses.

Pioneer Mutual Life Insurance Company (Pioneer) was incorporated in 1947 under the laws of North Dakota. Its administrative offices are located in Fargo, North Dakota. In 1991, the Company entered into an operating agreement with Pioneer to provide it with administration, marketing, and insurance services. As of December 31, 1999, Pioneer was licensed in 38 states. Pioneer wrote approximately $43.7 million of direct premiums in 1999. Approximately 56.2 percent of those premiums were written in the following states:

North Dakota	15.9 percent
Minnesota	15.4 percent
California	13.6 percent
Oregon	11.3 percent

The growth of Pioneer is reflected in the following schedule:

Year	Direct Premiums Written	Admitted Assets	Liabilities	Surplus
1995	$50,137,000	$377,634,000	$361,665,000	$15,969,000
1996	47,399,000	406,944,000	380,520,000	26,424,000
1997	47,816,000	422,539,000	392,285,000	30,254,000
1998	46,319,000	436,888,000	405,801,000	31,087,000
1999	43,679,000	444,629,000	412,364,000	32,265,000

Comments on the agreements with Lincoln Mutual Life Insurance Company and Pioneer Mutual Life Insurance Company and further comments on NCM are included under separate headings.

North Dakota Caring Foundation, Inc. is a not-for-profit organization developed by the Company to provide primary and preventive health services to children who reside in households which have an annual income exceeding the state's medical assistance guidelines but falling below the federal poverty level. The Company provides all administrative services for the foundation at no cost.

BLUE CROSS BLUE SHIELD ASSOCIATION

The Blue Cross Blue Shield Association (Association) is a national trade association and coordinating agency of the 50 Blues plans throughout the United States and Canada, and the owner and licensor of the Blue Cross and Blue Shield names and trademarks. The Association performs three primary roles--those of a trademark licensor, a trade association, and a provider of various business and coordinating plan services.

The Association protects the value of the Blue Cross and Blue Shield names and trademarks by requiring plans to comply with terms of a license agreement. The agreement defines the geographic boundaries within which plans may use the names and trademarks and the conditions of that usage. The Association also represents the collective interests of plans before the federal and state governments and certain other national organizations. Additionally, the Association administers programs designed to coordinate plan coverage nationwide for private business and government contracts and provides consulting services to individual plans.

The Association is governed by a Board of Directors composed of the chief executive officers from most Blues plans and is primarily funded by plan dues. Dues paid by the Company to the Association for the years 1996, 1997, 1998 and 1999, are as follows:

Year	Private-Side Dues	Medicare Dues
1996	$444,595	$ 55,788
1997	468,900	93,530
1998	489,442	121,636
1999	559,379	164,156

In 1993, the Company invested $500,000 in Series A Participating Preferred Stock of BCS Plan Investors Corporation. BCS Plan Investors Corporation is a wholly-owned subsidiary of Blue Cross Blue Shield Association and was established to take over the Washington, D.C., Blue Cross Blue Shield plan. Through this funding mechanism, a consortium of 37 Blues plans made financial commitments to the Washington, D.C., plan that increased that plan's surplus by $60 million. The Company disposed of 128 shares in 1997, 74 shares in 1998, and 74 shares in 1999. The stock had a book and admitted value of $223,500 at December 31, 1999. Dividends received on the preferred stock are as follows:

1996	$18,000
1997	18,000
1998	6,630
1999	14,751

MANAGEMENT AND CONTROL

Membership

A member is defined in the Bylaws as (a) an owner of an individual accident and health policy or health service contract or an owner of a stop-loss insurance policy and (b) a person named as a subscriber or certificate holder under a group accident and health insurance policy or health service contract. According to the Bylaws, each member of the Company shall be entitled to one vote on each matter submitted to a vote of the members.

The annual meeting of the members shall be held in the month of December of each year at the time, day, and place determined by the Board of Directors for the purpose of electing directors and transacting any other business as may properly come before the meeting.

Special meetings of the members may be called at any time upon written request of the President/CEO, the Chairman of the Board, five or more Directors, five percent or more of the members, or as otherwise required by law.

Written or printed notice stating the place, day. and hour of any meeting of members shall be delivered by mail to each member entitled to vote at the meeting. A quorum for the annual meeting is those members present in person or represented by written proxies.

Board of Directors

The Bylaws provide that the Board of Directors shall consist of thirteen directors, consisting of eight member directors and five provider directors. The director classifications are defined as follows: (a) member directors - members of the Corporation, or officers, directors, or trustees of Members of the Corporation, who are not providers of health care services and who are not employees or persons having a financial interest in, any provider of health care services, and (b) provider directors - physicians or chief executive officers of hospitals. All directors must be members of the Corporation or have health coverage through a person or entity that is a member.

The directors shall be elected by a majority of the members present or represented by proxy at the annual meeting. Each director shall be elected for a term of three years. No director shall serve more than three successive three-year terms. The terms of the directors are staggered so that approximately one-third of the terms expire each year.

According to the Bylaws, the Board of Directors shall meet not fewer than six times annually. The annual meeting of the Board is in December. Special meetings of the Board may be called at any time by the Chairman of the Board, the President/CEO, or any two directors.

Directors shall not receive any stated salaries for their services, but by resolution of the Board of Directors, Directors may receive compensation for attendance at a regular or special meeting of the Board of Directors. During 1999, the Board of Directors received $500 per day for attendance in person at each meeting and $250 per conference call.

Following is a list of the directors and their principal business affiliations as of December 31, 1999:

Name	Category	No. of Years as Director	Business Affiliation
Allen Michael Booth, MD	P	5	Physician, Heart & Lung Clinic Bismarck, North Dakota
Robert Edwin Grossman, MD	P	3	Physician, Hettinger Clinic Hettinger, North Dakota
Steve Al Herman	M	7	A-Action Moving and Storage Bismarck, North Dakota
Richard Max Johnsen	M	3	Johnsen Trailer Sales, Inc. Bismarck, North Dakota
Kenneth Johan Johnson	M	10	President, Monarch Products Co. Minot, North Dakota
Frank Patrick Keogh	M	3	American State Bk. & Trust Co. Williston, North Dakota
Ricki Eugene Larson	M	7	Sheyenne Tooling and Manufacturing, Inc. Cooperstown, North Dakota
Mary Magdalene Lewis	M	10	Corporate Secretary, Lewis Truck Lines Fargo, North Dakota

Name	Category	No. of Years as Director	Business Affiliation
Wallace Edward Radtke, MD	P	6	Physician, MeritCare Medical Group Fargo, North Dakota
Richard Lawrence Rayl	M	7	Vice President for Business & Finance North Dakota State University Fargo, North Dakota
Daryl John Wilkens	P	6	Cavalier County Memorial Hospital Langdon, North Dakota
Mark Stewart Sanford	M	2	Grand Forks Public Schools Grand Forks, North Dakota
Richard Allen Tschider	P	3	St. Alexius Medical Center Bismarck, North Dakota

Category: P -Provider, M - Member

Committees

Financial and Investment Committee

The Finance and Investment Committee is composed of five members of the Board of Directors. The Finance and Investment Committee met four times in 1996, five times in 1997, four times in 1998, and five times in 1999 ratifying the investment transactions made by the Company's investment manager and custodian, Northern Capital Trust Company. The Committee approves such investments in accordance with formal guidelines established by the Board of Directors.

Audit and Compliance Committee

The Audit and Compliance Committee is composed of four directors. The Audit Committee met four times in 1996, four times in 1997, five times in 1998, and four times in 1999.

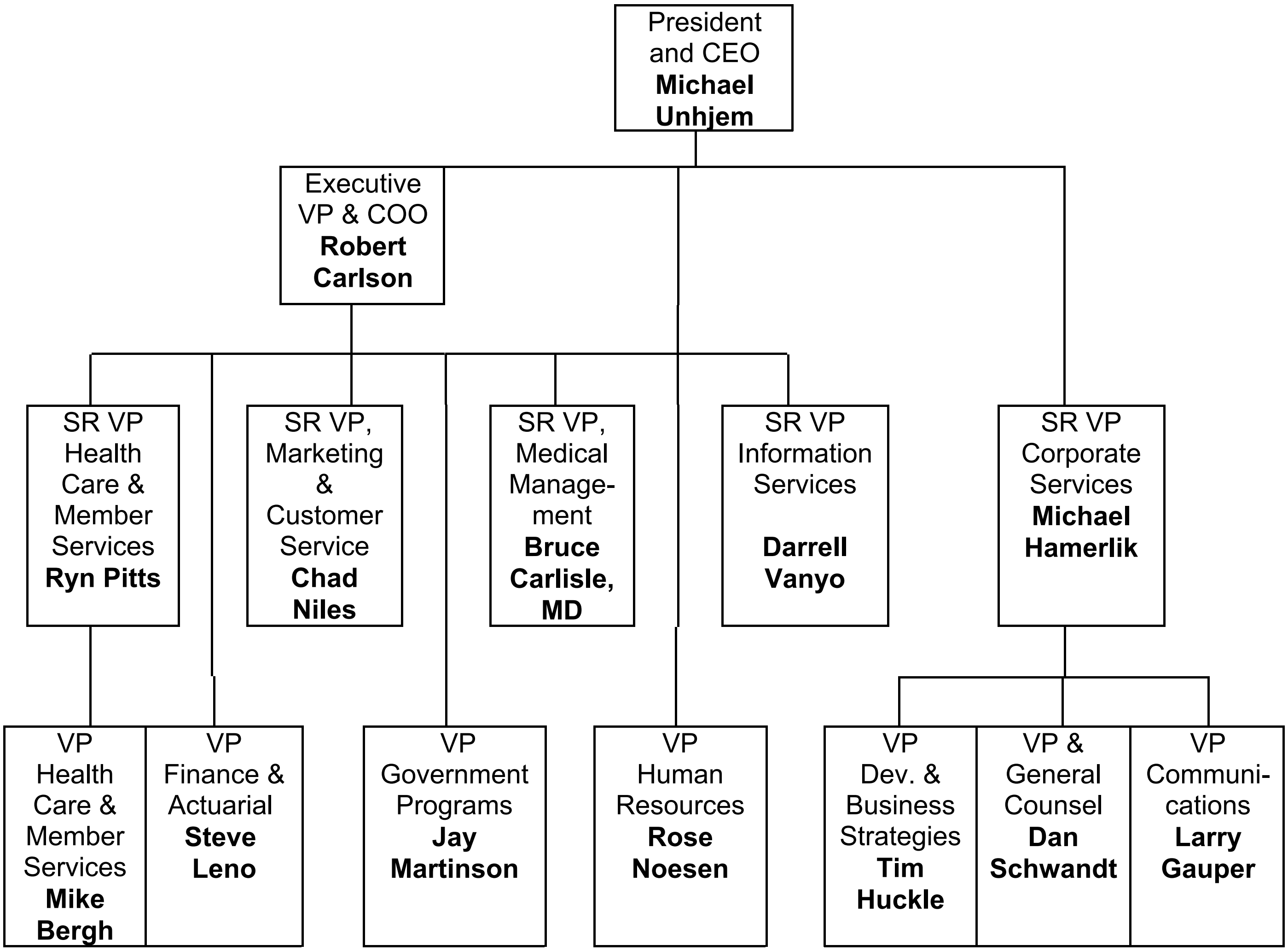
Other Committees

Other committees designated by the Bylaws and composed only of Board members are: Governance and Nominating Committee, Quality Committee, and Human Resources and Compensation Committee. The Board of Directors may designate additional committees as it deems necessary.

Officers

The managing corporate officers of the Company are determined by the Board of Directors and include a President and Chief Executive Officer, one or more Vice Presidents, and other officers as authorized by the Board. The President is elected annually at the annual meeting of the Board of Directors.

The officers serving as of December 31, 1999, were as follows:



Conflict of Interest

The Board of Directors adopted and published a resolution concerning conflict of interest, which is provided to the directors, officers, and key employees. The resolution requires full disclosure of any interest which might result in a conflict for a director, and forbids a material conflict of interest on the part of an officer or employee.

Conflict of interest statements are completed each year by directors, officers, and key employees disclosing any material interest or affiliation likely to cause any conflict. The statements are reviewed by the Vice President and General Counsel. If a conflict is disclosed, the affected party is notified and a review of the situation occurs. Resolution is usually obtained by discussing the situation with the party involved and developing parameters for dealing with potential conflicts.

The conflict of interest statements are reported each year to the Board of Directors which generally accepts recommendations from the Company staff. During the period under review, the Board accepted the statements as filed by the directors.

The Examiners reviewed conflict of interest statements provided by the Company for 1996 through 1999. No significant exceptions were noted.

Corporate Records

The Articles of Incorporation, Bylaws, and the minutes of the Members of the Corporation, Board of Directors, Finance and Investment Committee, and the various other committees were reviewed in detail. It was determined that meetings were held in accordance with the Bylaws and that actions were documented within the minutes.

The Company's Articles of Incorporation and Bylaws were amended and restated in 1998 in connection with the Company's conversion to a nonprofit mutual insurance company.

Contributions

The Policy for Corporate Contributions originally adopted by the Board in July 1995 and amended in December 1998 contains the following major provisions:

- The Communications Division will establish and administer an annual contributions budget according to the priority criteria and authorization procedures specified.

- Priority consideration is given to organizations, programs, or events that emphasize the overall wellness and health of North Dakota residents; that promote children's growth and development; and that improve the general status of communities.

- Authorization procedures requiring: written requests; approval by the Vice President of the Communications Division of contributions up to $5,000; approval by the President and CEO of contributions exceeding $5,000; and approval by the Board of Directors for contributions exceeding $10,000.

Contributions made by the Company in 1996 through 1999 total the following amounts:

1996 contributions	$81,979
1997 contributions	$110,208
1998 contributions	$114,946
1999 contributions	$53,554

The Examiners reviewed contribution records for compliance with authorization procedures; no exceptions were noted.

Fidelity Bond

At December 31, 1999, the Company is the named insured on a financial institution bond (Standard Form No. 25) issued by the Hartford Fire Insurance Company. The bond has an aggregate loss limit of $2,000,000 which exceeds the minimum coverage suggested by the National Association of Insurance Commissioners.

OFFICERS', EMPLOYEES', AND AGENTS' WELFARE AND PENSION PLANS

Group Life and Accidental Death and Dismemberment

Group life on the term plan is made available to full-time employees after three months of continuous employment. The entire cost is paid by the Company. The amount of the policy for basic insurance equals two times the employee's annual salary.

Hospital, Medical, Surgery, Vision, and Dental Coverage

Hospital, medical, surgery, major medical, and related benefits are available to employees of the Company. The Company's participation in the cost of the foregoing benefits is based on the employee's months of service as shown in the following schedule:

0 through 36 months	66.7%
37 through 60 months	75.0%
61 through 84 months	85.0%
85 months and over	100.0%

Dental and vision benefits are provided after six months of employment. The cost calculation and the Company's participation is the same as for the health insurance shown in the previous statement.

National Retirement Program

The National Retirement Program is a self-administered pension trust set up under the laws of Illinois through the Blue Cross Blue Shield Association. This mutual program was organized to provide retirement income for Blue Cross and Blue Shield employees.

To become eligible for the current retirement program, the employee must have completed one year of service (or have completed 1,000 hours in a 12-month period) with the Plan and attained the age of 21 years.

The current program is designed to provide a lump sum benefit based on years of service and final average salary of up to 432% for employees with 35 or more years of service. Employees are vested after five years of service.

The Company's funding and accounting policies are to contribute annually the minimum amount required by applicable regulations plus such additional amounts as the Company determines to be appropriate and to charge such contributions to expense in the year they are deductible for income tax purposes. The Company contributed the following amounts to the pension plan during the period under review:

Year	Amount
1996	$3,424,000
1997	3,333,000
1998	3,400,000
1999	3,400,000

Supplemental Retirement Program

The Company established an unfunded supplemental employee retirement plan (SERP) for certain management employees that meet the required provisions. To become eligible, an employee must meet the requirements of the National Retirement Program and exceed the maximum compensation level or maximum annual benefit as set by the Internal Revenue Code. The Company's costs and reimbursements by affiliates for this plan for the period under review were as follows:

Year	Total Cost	Reimbursements by Affiliates
1996	$686,000	$291,000
1997	514,000	60,000
1998	1,170,000	57,000
1999	447,000	67,000

These costs include the expected cost of benefits for newly eligible employees, interest costs, and gains and losses arising from differences between actuarial assumptions and actual experience. The total estimated liability at December 31, 1999, was $2,422,000 and was attributable to 27 individuals as follows:

Company	
Retired President and CEO	$ 72,431
President and CEO	339,086
VP, Health Care and Member Services	114,370
Executive VP and COO	910,603
VP, Finance and Actuarial	141,380
VP, Human Resources	131,224
Others - Company	415,055
Affiliates	
LML, President	195,373
NCM, President	42,319
Others - Affiliates	60,159
Total	$2,422,000

National Long-Term Disability Program

This program is operated similar to the National Retirement Program and was adopted to insure a monthly disability pension for employees who may become totally and permanently disabled. An employee must have worked for the Company for six months and 1,000 hours in a 12-month period to become eligible.

The benefit is computed at 50 percent of the employee's monthly salary on January 1 preceding the date of disability, less any payment due under Social Security and workers compensation. Long-term disability benefits are payable commencing on the first day of the sixth month following the date the disability occurred.

The entire cost of this plan is also paid by the Company.

401-K Salary Savings Plan

A contributory defined contribution plan allows employees to contribute up to 17 percent of their eligible annual compensation on a pretax or post-tax basis or any combination thereof. The Company then matches 50 percent of employee contributions up to a maximum of six percent based on length of service. Employees are credited with one year towards vesting for each year in which they have worked 1,000 hours. An employee is vested upon reaching 1,000 hours in their fifth year of employment.

Employee's Incentive Savings Program

A contributory defined contribution plan which, prior to January 1, 1993, allowed employees to contribute one percent to six percent of their eligible annual compensation on a post-tax basis. The Company matched 50 percent of employee contributions up to six percent. On January 1, 1993, contributions to the Employees Incentive Savings Program were discontinued and subsequent contributions credited to Salary Savings Plan. Contributions made prior to January 1, 1993, remain with the Employees Incentive Savings Program for future benefit until withdrawn and/or rolled over by the employee.

Post Employment Benefits

In addition to pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Virtually all employees become eligible for these benefits if they are age 55 and have 15 years of service. Life insurance benefits are generally set at a fixed amount. The total estimated liability for retirees' plans during the period under review was as follows:

Year	Amount
1996	$ 5,976,000
1997	6,842,000
1998	7,935,000
1999	11,415,000

AFFILIATE TRANSACTIONS

Allocation of Expenses

The Company maintains a pool of administrative expenses that are allocated to the Company's subsidiaries and affiliates based upon the cost accounting and allocation system used by the Company.

In its 1996 through 1999 Annual Statements, the Company reported its line item administrative expenses net of expense reimbursements received from affiliates.

The following schedule discloses administrative expenses on a gross basis and a net basis for the years 1996 through 1999:

Year	Company Administrative Expenses	Total Administrative Expenses
1996	$50,213,506	$ 84,832,339
1997	56,523,783	109,322,985
1998	57,399,689	122,854,680
1999	53,875,033	135,043,506

Total expenses or gross expenses shown in the above schedule represent the pool of administrative expenses (excluding investment expenses) allocated under the Company's cost accounting and allocation system. Those expenses include amounts incurred by the Company and expenses incurred by all subsidiaries and affiliates. Net expenses represent the costs incurred by the Company.

The costs for processing Medicare A and B claims represent a significant portion of administrative expenses. Those costs are included in total expenses but not under net expenses. The expenses allocated to the Company only, to the Medicare A and B lines of business, and to other lines of business during the 1996 through 1999 period are as follows:

Year	Company	Percent of Total	Medicare A & B	Percent of total	Other Lines	Percent of Total	Total Expenses
1996	$50.2 M	59.20%	$16.6 M	19.58%	$18.0 M	21.23%	$84.8 M
1997	56.5 M	51.69%	33.4 M	30.56%	19.4 M	17.75%	109.3 M
1998	57.4 M	46.70%	45.0 M	36.62%	20.5 M	16.68%	122.9 M
1999	53.9 M	39.93%	61.5 M	45.56%	19.6 M	14.52%	135.0 M

Under the Company's cost accounting system, affiliates are established as lines of business. Cost centers allocate expenses to lines of business based on employee counts, time studies, contract counts, or other bases deemed to be appropriate. Allocation bases are updated monthly and actual expenses are compared to budget on a monthly basis.

Northern Capital Management

This subsidiary provides investment management services for the Company and other entities as well as individuals. The stockholders of Northern Capital Management (NCM) as of December 31, 1999, are as follows:

Name	Number of Shares Owned	Percent
H. Michael Hardy President of NCM	17,564	39.7%
Company	26,662	60.3%
Total	44,226	100.0%

Northern Capital Trust (NCT) is a wholly-owned subsidiary of NCM. Under an investment advisory and custodial agreement dated November 1, 1991, NCT was appointed investment advisor for securities of the Company. As of December 31, 1999, the value of the Company securities held by NCT was $147,935,850.

The Boards of NCM and NCT consisted of the same individuals. The eight directors at December 31, 1999, were as follows:

Name	Business Affiliation
Robert Carlson	Executive Vice President, the Company
Robert Gibb, Jr.	President, Robert Gibb & Sons, Inc.
Albert Hardy	Partner; Hardy, Maus and Nordsven
H. Michael Hardy	President, NCM
Rondi McGovern	Human Resources/Benefits, R. D. Offutt Company
Nancy Slotten	Border States
Richard Solberg	President, State Bank of Fargo
Michael Unhjem	President & CEO, the Company

The directors receive no fees for their participation on the Board of NCM. However, for serving on the NCT Board, each director received $200 for each meeting attended plus an annual remittance of $1,000 in 1996, $225 for each meeting attended plus an annual remittance of $1,000 in 1997, and $225 per meeting plus an annual remittance of $1,200 in 1998 and 1999. The NCM and NCT Boards normally hold four meetings in each year.

The following schedule presents the operating results for NCM and its subsidiaries along with the reported value of NCM stock owned by the Company during the period of 1996 through 1999:

Year	NCM and NCT Net Income	Value of NCM Stock
1996	$588,637	$1,286,975
1997	919,365	1,757,559
1998	1,134,158	2,323,887
1999	1,229,491	3,016,432

The Company disposed of its investment in NCM common stock on October 9, 2000.

Lincoln Mutual Life Insurance Company (LML)

As of December 31, 1999, four officers and directors of the Company were serving on LML's eight member Board of Directors and one officer of the Company was also elected to serve as an officer of LML. These individuals are noted as follows:

Name	LML Position	Company Position
Michael Unhjem	Director	President and CEO
Robert Carlson	Director and VP	Executive VP and COO
Richard Rayl	Director	Director
Wallace E. Radke, MD	Director	Director

Under a March 1, 1989, facilities management and service agreement, employees of LML became employees of the Company, receiving credit for years of service with LML in the benefit programs of the Company. For the years ended December 31, 1999, 1998, 1997, and 1996, reported contributions of $71,397, $93,089, $66,847, and $56,772, respectively, were made by the Company to its defined benefit pension plan which are allocable to LML operations.

The facilities management and service agreement also provides for NISI, a 99 percent owned subsidiary of the Company, to perform long-term administration, management, marketing, and insurance services to LML as directed by the LML Board of Directors. The net reimbursement paid to the Company under the agreement was $1,159,457, $1,175,435, $1,142,215, and $1,084,225 for 1999, 1998, 1997, and 1996, respectively.

John S. Koltes serves as President of LML pursuant to a March 1, 1989, agreement with the Company. This agreement specifies an employment period of 11 years as well as annual cost of living and merit increases as determined from time to time by the Company, a monthly expense allowance, a monthly automobile allowance, and expenses for entertainment, travel, and similar items. Mr. Koltes' reported compensation totaled $146,565, $140,141, $133,272, and $136,208 for 1999, 1998, 1997, and 1996, respectively.

Pursuant to a fronting arrangement, LML markets Company products in other states on LML paper and cedes the resulting accident and health business to the Company under a formal reinsurance agreement. The total accident and health premiums ceded to the Company as of December 31, 1999, 1998, 1997, and 1996, were $14.3 million, $11.0 million, $6.0 million, and $4.4 million, respectively. For 1999, the premiums ceded to the Company represent 67.7 percent of LML's direct business.

In March 1995, LML moved its statutory home office from the Lincoln Building at 711 Second Avenue North, Fargo to the Pioneer Building at 203 North 10th Street, Fargo; both buildings are owned by the Company. LML operations occupy approximately 12.35 percent of the 52,629 square foot Pioneer Building and rental expense allocated to LML is based on actual costs incurred. Rental expense of $63,524, $69,632, $69,183, and $63,431 was reported by LML for 1999, 1998, 1997, and 1996, respectively.

Pioneer Mutual Life Insurance Company (PML)

As of December 31, 1999, there were no Company officers serving as officers of PML; however, two officers of the Company were serving on PML's 10-member Board of Directors, as follows:

Name	PML Position	Company Position
Michael Unhjem	Director	President and CEO
Robert Carlson	Director	Executive VP and COO

In accordance with a facilities management and service agreement dated April 18, 1991, employees of PML became employees of the Company, receiving credit for years of service with PML in the benefit programs of the Company. For the years ended December 31, 1999, 1998, 1997, and 1996, reported contributions for employee benefit plans were in the amounts of $290,004, $319,721, $368,126, and $618,440 which contributions were allocable to PML operations. The PML Board of Directors retained the right to hire, promote, and discharge employees and to determine employee salaries.

The facilities management and service agreement also provides for NISI, a 99 percent owned subsidiary of the Company, to perform long-term administration, marketing, and insurance services to PML as directed by the PML Board of Directors. The reported reimbursement paid to the Company under the agreement was $9,225,525, $9,496,976, $9,446,622, and $9,135,966 for 1999, 1998, 1997, and 1996, respectively.

PML operations occupy approximately 49.18 percent of the 52,629 square foot Pioneer Building and rental expense allocated to PML is based on actual costs incurred. Rental expense of $330,536, $372,857, $380,464, and $355,257 reported by PML for 1999, 1998, 1997, and 1996, respectively.

On December 31, 1996, PML issued a $10,000,000 surplus note to the Company in exchange for U.S. Treasury Notes. The surplus note contained provisions for a 20-year term, for semi-annual interest payments at 125 basis points over a 10-year U.S. Treasury security adjusted at 10-year intervals, and for the repayment of principal in the amount of $666,667 annually over a 15-year period beginning in the year 2002. PML repaid the note in full on March 31, 1999.

BUSINESS OPERATIONS

Territory and Market Share

The Company is duly licensed and qualified to transact the business of a nonprofit mutual insurance company in North Dakota.

During the period under examination, the Company's share of the accident and health business written in North Dakota (inclusive of reimbursements from administrative service contracts) was as follows:

Premiums Earned (Millions of Dollars)

Year	Company	%	Other Life and A&H Insurers	%	P/C Insurers	%	HMOs	%	Total	Total
1995	$451.3	71.6%	$153.3	24.3%	$16.2	2.6%	$9.5	1.5%	$630.3	100.0%
1996	470.2	72.6%	151.8	23.4%	15.5	2.4%	10.6	1.6%	648.1	100.0%
1997	492.6	71.6%	163.2	23.8%	15.8	2.3%	15.5	2.3%	687.1	100.0%
1998	528.0	73.6%	155.8	21.7%	15.7	2.2%	18.3	2.5%	717.8	100.0%
1999	579.4	73.7%	169.9	21.7%	15.0	1.9%	21.5	2.7%	785.8	100.0%

Generally, accident and health business written by life and accident and health insurers and property casualty insurers includes disability income, accident insurance, nursing home insurance, dread disease insurance, and various other types of accident and health insurance. In contrast the business written by the Company consists mainly of comprehensive health and Medicare supplement coverages.

Marketing

The Company had 499 active licensed agents under contract as of December 31, 1999. Of these, 412 are independent agents located across North Dakota selling primarily individual Bank Depositor and Nodakare programs. Remuneration for these agents is based upon straight commission.

The remaining 87 licensed agents are employees of the Company or its affiliates. Remuneration for these agents is based primarily on salaries with a bonus paid for new group and individual sales.

Production of the Company's business is under the supervision of the Senior Vice President of Marketing. District managers are located in Fargo, Minot, Grand Forks, and Bismarck and are assigned geographical areas that comprise a district.

Member Hospitals and Physicians

As of December 31, 1999, there were 47 North Dakota hospitals listed by the Company as contracting hospitals. In order to become a contracting hospital, a hospital must be duly licensed to render health care services under the provider agreement and meet federal, state, and local fire, safety, and other laws. Member hospitals agree to furnish health care services to any person entitled to receive services under the terms and provisions of any subscriber contract issued by the Company and to members of other Blue Cross and Blue Shield Plans with which the Company has agreements to provide health care services.

Any physician licensed to practice medicine in North Dakota may register with the Company as a participating physician. There are approximately 1,304 participating physicians. Member physicians agree to honor, when applicable to the physician's patients, the Service Benefit provision of the various agreements and to abide by the regulations of the Company.

Other Significant Accounts and Functions

Federal Employee Program

The Federal Employee Program (FEP) is a Blue Cross Blue Shield program which serves the Federal Employees Health Benefit Program (FEHBP). The Blue Cross Blue Shield Association coordinates the FEP for Blue Cross Blue Shield Plans electing to participate in the program. A Plan Participation Agreement spells out the respective duties of the Plans and the Association. Claims incurred under FEP are paid by the participating Plans where services are rendered. The Plans are reimbursed by the Association from a central account funded by the federal government and FEHBP employee premiums. Participating Plans recover their approved costs of administration from the program. In addition, the FEP is paid a service charge by the government for operating the program, which is distributed to participating Plans based upon performance and service.

The FEP operates on a yearly cycle. The federal government and eligible carriers negotiate the benefit package, subscriber rates, and cost of administration of the FEP annually. All participating Plans are required by the federal program to jointly underwrite the benefits of the FEP.

The Company reports the FEP premiums in the statutory Annual Statement in Exhibit 5 as an underwritten line of business. The FEP premiums represented approximately 7.4 percent of the total premiums earned as reported on the 1999 Annual Statement Underwriting and Investment Exhibit Part 1.

The following schedule shows the amount of FEP business transacted during the period under examination:

Year	Premiums Written
1996	$21,865,727
1997	22,770,922
1998	25,774,124
1999	33,987,254

North Dakota Public Employees Group Health Plan

The North Dakota Public Employees Group Health Plan (Health Plan), the Company's largest group account, is administered under an administrative service agreement between the Company and the North Dakota Public Employees Retirement System (NDPERS). The agreement specifies the monthly premium to be paid by the Health Plan and the amount of administrative expenses allowed the Company. The agreement also provides that any surplus generated is returned to NDPERS except for a portion of the net gain to be shared with the Company.

During the period under examination, three administrative service agreements with similar provisions were used to administer the Health Plan. The administrative expense and share of surplus allowed the Company under each agreement is reflected in the following schedule:

Coverage Period for Agreement	Administrative Expenses	Company's Share of Surplus Generated
July 1, 1995, to June 30, 1997	4.1% of premium	50% of the first $1,000,000
July 1, 1997, to June 30, 1999	4.1% of premium	20% of the first $2,500,000
July 1, 1999, to June 30, 2001	$19.18 per contract	50% of the first $1,000,000

At June 30, 1997, the NDPERS account had a cash balance of approximately $15.1 million with which to pay the Company its surplus share, buy down future premiums, and pay subsequent claims runoff. The Company received $500,000 for its share of surplus generated from the 1995-1997 contract period.

At June 30, 1999, the NDPERS account had a cash balance of approximately $4.9 million with which to buy down future premiums and pay subsequent claims runoff. Runoff analysis through August 2000 indicates that claims incurred and administrative expenses exceeded earned premiums for the 1997-1999 contract period by approximately $2.4 million and will not generate a surplus allocation to the Company.

Available cash at December 31, 1999, consisted of the following components:

- An amount of $8,713,836 relating to premiums and claims refunds in excess of claims paid under the 1999-2001 contract plus a carryforward balance from prior contracts.
- An amount of $3,710,365 relating to surplus transferred from a special investment transferred to the Company in October 1993.

The Company reported in its 1999 statutory Annual Statement $5,074,202 due the NDPERS group under the write-in liability "Provision for Experience Rating Refunds". This figure represented the net amount of $12,417,859 cash available, $6,343 accrued interest, and a $(7,350,000) provision for claims incurred but not reported.

The Company reports the business from the NDPERS account in the statutory Annual Statement as an underwritten line of business. NDPERS business represented approximately 17.6 percent of the total direct written premiums reported in the 1999 statutory Annual Statement.

The following schedule shows the amount of NDPERS business transacted during the period under examination:

Year	Premiums Written
1996	$63,862,844
1997	67,874,517
1998	72,352,996
1999	78,157,662

National Accounts

During the period under review, the Company participated in a line of business denoted as National Accounts. This account consisted of a Control Plan, a Participating Plan, and an Equalization Agreement. It was established by the National Blue Cross and Blue Shield Association to allow business and governmental agencies that operate in more than one state the ability to deal with one plan when negotiating contracts, rates, and settlement of claims. The National Account program ended on December 31, 1998.

Administrative Services Contract (ASC)

The Company also functions as an administrator for various self-insured plans. The Company is reimbursed for certain administrative costs and for payments made on behalf of the beneficiaries of these programs. The Company changed its method of reporting reimbursements received and payments remitted under these plans on the 1995 Annual Statement by reporting the ASC business as write-in items in the Underwriting and Investment Exhibit rather than as insured business on the Underwriting and Investment Exhibit. The following schedule shows the amount of ASC business transacted during the period under examination:

Year	ASC Income	ASC Expenses	Administration Fee
1996	$102,681,304	$96,521,094	$6,160,210
1997	111,815,829	105,900,423	5,915,406
1998	115,492,091	109,224,303	6,267,788
1999	122,928,776	115,616,224	7,312,552

A review of the Company's Annual Statements during the period under review, revealed the following differences with respect to the reporting of ASC business:

- NAIC *Annual Statement Instructions* require insurers to report both expenses and reimbursements related to ASC business in Part 3 of the Analysis of Expenses of the Underwriting and Investment Exhibit. The Company included ASC related expenses among the expense line items in the Analysis of Expenses but it did not include reimbursements received from ASC groups on line 23 of the Analysis of Expenses.

- The Company overstated the gain from ASC business reported on page 6 - "Analysis of Operations by Line of Business". The gain reported by the Company represented gross fees received for the administration of ASC plans. According to NAIC Instructions, the gain should be computed by subtracting expenses from administrative fees.

- The Company did not properly complete disclosure number 12 to the Notes to Financial Statements. Disclosure number 12 requires insurers to report the gain or loss from uninsured and partially insured A&H plans. The Company's response to note number 12 was "None". NAIC *Annual Statement Instructions* require insurers transacting ASC business to complete a schedule showing the net expense reimbursement, other income or expenses, and the net gain or loss for both uninsured and partially insured plans.

It is recommended that the Company make the following adjustments regarding the reporting of ASC business:

- **Report reimbursements from ASC plans on the appropriate line in Part 3 of the Analysis of Expenses.**
- **Include ASC expenses into the computation when computing the gain or loss on ASC business.**
- **Complete the Note to the Financial Statement disclosure related to ASC business in accordance with *Annual Statement Instructions*.**

Medicare

During the period under review, the Company contracted with the Health Care Finance Administration (HCFA) of the federal government to process Medicare A and Medicare B claims. Medicare A provides coverage to individuals enrolled in HCFA's program for institutional claims. Medicare B pays for professional or physician services.

As of December 31, 1999, the Company was processing Medicare A claims for North Dakota and Minnesota and Medicare B claims for North Dakota, South Dakota, Wyoming, Colorado, Iowa, Arizona, Washington, Oregon, Hawaii, Alaska, and Nevada. The Company reports its reimbursements for processing costs of Medicare A and B claims under other income in its statement of operations.

The costs for this line of business, as with all lines, are allocated by the Company using the full absorption cost method. Under this method, the amounts allocated to the processing of Medicare A and B claims includes both direct (variable costs) and fixed costs. Fixed costs are costs which the Company would otherwise incur with or without the contract to process Medicare claims.

The following schedule shows the fixed and variable costs for Medicare A and Medicare B along with the reimbursements received from HCFA for calendar years 1996 through 1999:

Calendar Year	Medicare A Variable Expense	Medicare A Fixed Expense	Total Medicare A Expenses	Medicare A Reimburse-ment	Medicare A Reimbursement Less Variable Expenses
1996	$1,344,021	$375,140	$1,719,161	$1,466,706	$122,685
1997	1,320,232	243,503	1,563,735	1,418,222	97,990
1998	1,408,539	258,452	1,666,991	1,315,388	(93,151)
1999	4,604,890	608,543	5,213,433	5,338,328	733,438

Calendar Year	Medicare B Variable Expense	Medicare B Fixed Expense	Total Medicare B Expenses	Medicare B Reimburse-ment	Medicare B Reimbursement Less Variable Expenses
1996	$12,849,335	$2,013,127	$14,862,462	$14,633,593	$1,784,258
1997	29,657,108	2,161,138	31,818,246	31,263,380	1,606,272
1998	41,055,530	2,288,906	43,344,436	43,169,984	2,114,454
1999	53,430,010	2,871,634	56,301,644	57,290,190	3,860,180

The increase in Medicare A costs in 1999 reflect the additional expenses related to Medicare A in Minnesota which was added in August 1999. The increase of Medicare B costs in 1997 and 1998 reflect additional expenses related to Medicare B in Washington, Oregon, Arizona, Nevada, Hawaii, and Alaska which were added in the summer of 1997. The increase in 1999 is related to the addition of Iowa in November 1998. The aggregate reimbursement received from HCFA exceeded the aggregate direct (variable) costs related to processing of Medicare A and Medicare B claims in each year under examination. The excess reimbursement contributed to covering the Company's fixed costs and ultimately increased the Company's net income.

A review of the Company's annual statements during the period under review revealed the following difference with respect to the reporting of Medicare business transacted for HCFA:

- *Annual Statement Instructions* require insurers to report reimbursements and expenses from fiscal intermediaries in the "Analysis of Expenses" Part 3 to the Underwriting and Investment Exhibit. As noted earlier, the Company included Medicare expenses and Medicare reimbursements on page 4 of the statutory annual statement under the write-in title captioned "Net Miscellaneous Income and Miscellaneous Expenses".

It is recommended that the Company report Medicare A and B expenses and Medicare A and B reimbursements in the Analysis of Expenses – Part 3 to the Underwriting and Investment Exhibit.

INSURANCE PRODUCTS AND RELATED PRACTICES

The North Dakota Insurance Department has a market conduct staff which performed a review of insurance products and related practices concurrently with this examination.

GROWTH OF THE COMPANY

The growth of the Company for the years 1995 through 1999 is shown in the following schedule which lists data reported in the Company's Annual Statements, except for years 1995 and 1999 which represents amounts determined by examination:

Year	Assets	Liabilities	Statutory Reserves	Net Premium Earned	Number of Contracts	Number of Participants
1995	$233,510,917	$120,831,400	$112,679,517	$363,105,895	147,148	283,448
1996	230,258,230	114,044,498	116,213,732	367,540,391	146,661	282,618
1997	234,472,002	115,500,770	118,971,233	380,822,733	152,511	294,120
1998	219,674,270	114,324,079	105,350,191	412,502,282	157,649	305,423
1999	220,390,916	109,406,086	110,984,830	456,441,896	159,339	306,359

The ratio of claims and expenses incurred to premiums earned for years 1995 through 1999 is shown in the following schedule:

Year	Premiums Earned	Claims Incurred	Loss Ratio	Expenses Incurred	Expense Ratio	Loss and Expense Ratio
1995	$363,105,895	$320,003,651	88.13%	$46,202,086	12.72%	100.85%
1996	367,540,391	335,832,413	91.37%	48,813,984	13.28%	104.65%
1997	380,822,733	340,931,648	89.53%	55,044,588	14.45%	103.98%
1998	412,502,282	389,629,983	94.46%	55,970,073	13.57%	108.03%
1999	456,441,896	424,839,870	93.08%	52,433,407	11.49%	104.57%

Administrative Expenses

For the period 1995 to 1999, the percentage growth of administrative expenses is shown below as compared to growth percentages for premiums earned and claims incurred:

Year	Premiums Earned	Percent Increase	Claims Incurred	Percent Increase	Administrative Expenses	Percent Increase
1995	$363,105,895	7.8% *	$320,003,651	5.7%*	$46,202,086	10.94%
1996	367,540,391	1.22%	335,832,413	4.95%	48,813,984	5.65%
1997	380,822,733	3.61%	340,931,648	1.52%	55,044,588	12.77%
1998	412,502,282	8.32%	389,629,983	14.29%	55,970,073	1.68%
1999	456,441,896	10.65%	424,839,870	9.04%	52,433,407	(6.32%)

* ASO is included in the calculation.

Performance Incentive Program

A Performance Incentive Program was first implemented in 1992 for executives that provided annual bonuses based on the organization's achievement of various performance goals. During the period under examination, the Board of Directors approved a performance incentive program which expanded the number of managers eligible under the program from its 1995 level of 64 persons to 68 participants in 1996, 73 participants in 1997 and 1998, and 75 participants in 1999.

The four 1999 corporate objectives were: (1) financial results, (2) administrative budget results, (3) marketplace enrollment results, and (4) customer satisfaction results. Each objective had two tiers--target and stretch--which have assigned payout percentages by grade level ranging from 4% to 19% in 1999. The performance incentive bonus is calculated by multiplying the individual's salary by the total percentage achieved for the four objectives.

The 1999 goals and actual results for each of the four objectives are set forth below:

Objective	Goals	
Financial Results:	Target	$ 2,126,000
(a) Underwriting Gain (Loss)	Stretch	$ 7,771,050
	1999 Actual	$(13,518,827)
(b) Net Gain (Loss)	Target	$ 7,414,000
	Stretch	$15,881,000
	1999 Actual	$ 1,818,409
Administrative Budget Result	Target	$9.80
(Operating Expenses)	Stretch	$9.65
	1999 Actual	$9.13
Marketplace Results:	Target	3,600
(a) Net Sales – Contract Count	Stretch	5,600
	1999 Actual	5,280
(b) New Sales	Target	8,500
	Stretch	10,500
	1999 Actual	10,999
External Customer Service	Target	89.00%
	Stretch	91.00%
	1999 Actual	89.53%

The following schedule presents corporate goals achieved and performance bonuses paid during the period under examination:

	1996	1997	1998	1999
Corporate Target Goals Achieved	7 of 8	4 of 4	2 of 4	4 of 6
Corporate Stretch Goals Achieved	4 of 8	2 of 4	0 of 4	2 of 6
Percent of Average Bonus to Base Salary	3.14%	5.20%	3.31%	5.18%
Total Performance Bonuses Paid	$838,082	$1,693,850	$1,285,845	$2,238,683

UNDERWRITING EXPERIENCE

The Company's underwriting gain or loss and loss and expense ratio by classification for the period under review is reflected below:

	Group Remittance		Direct Payment		Medicare Supplement		Other		Total	
Year	Amount (000s omitted)	Loss & Exp. Ratio	Amount (000s omitted)	Loss & Exp. Ratio	Amount (000s omitted)	Loss & Exp. Ratio	Amount (000s omitted)	Loss & Exp. Ratio	Amount (000s omitted)	Loss & Exp. Ratio
1996	$(11,690)	104%	$(4,500)	184%	$(685)	101%	$(231)	101%	$(17,106)	105%
1997	(13,482)	105%	2,393	96%	(3,385)	107%	(680)	103%	(15,154)	104%
1998	(26,534)	110%	(2,788)	105%	(1,680)	103%	(2,096)	108%	(33,098)	108%
1999	(22,292)	107%	(720)	101%	1,690	97%	491	99%	(20,831)	105%
Total	$(73,998)		$(5,615)		$(4,060)		$(2,516)		$(86,189)	

REINSURANCE

The following is a summary of the sole reinsurance agreement in effect during the period covered by this examination under which the Company assumed all accident and health business written by affiliate, Lincoln Mutual Life Insurance Company. The Company did not cede any business during the period under examination.

Reinsurance Assumed:

Type: Quota Share

Ceding Company: Lincoln Mutual Life Insurance Company (LML)

Scope: All group health policies and all Medicare supplement policies written in South Dakota

Coverage: 100 percent of the liability for claims and any other benefit under the policies described above.

Premium: 100 percent of the premiums collected less the cost of premium taxes, processing and underwriting applications, billing and collecting premiums from insureds, and receiving, processing, adjudicating, and paying claims.

Effective Date: January 1, 1990

The amount of reinsurance premiums, incurred claims, and expenses assumed by the Company from LML during the period under examination as well as marketing fees paid to LML is presented in the following schedule:

	1996	1997	1998	1999
Reinsurance Premiums Assumed	$4,414,682	$6,018,075	$10,974,053	$14,288,132
Incurred Claims Assumed	4,951,658	5,705,781	11,116,636	14,095,066
Loss Ratio	111.71%	94.81%	101.30%	98.65%
Expense Assumed by Company				
Operating Expenses	$1,364,902	$1,832,933	$2,609,506	$2,573,450
Commission Expense	53,216	57,586	66,794	75,111
Premium Tax Expense	111,046	150,909	279,272	354,686
Marketing Fees Paid LML	60,764	77,720	128,454	0
Total Expenses	$1,589,928	$2,119,148	$3,084,026	$3,003,247
Expenses and Claims in Excess of Reinsurance Premiums	$(2,126,904)	$(1,806,854)	$(3,226,609)	$(2,810,181)

The Examiners noted the following reporting differences with respect to the business assumed from Lincoln Mutual Life Insurance Company during the period under examination:

- The Company understated both reinsurance assumed premiums and expenses assumed by the Company in the Underwriting and Investment Exhibit in each of the years under examination. The Company reported reinsurance premiums assumed in the Underwriting and Investment Exhibit at net thus the understatement each year represented the expenses assumed by the Company, e.g., $3,003,247 in 1999.

- The Company did not consistently report reinsurance premiums assumed at gross in Schedule S during the period under examination. In 1998 the Company reported no accident and health reinsurance assumed business in Schedule S and in 1999, the Company understated reinsurance assumed by $3.0 million, the understatement representing expenses assumed by the Company for 1999.

The understatement of premiums assumed and expenses assumed are offsetting and did not effect underwriting results or net income.

It is recommended that the Company report reinsurance assumed premiums at gross in Schedule S and in the Underwriting and Investment Exhibit and report commissions and expenses on reinsurance premiums assumed in the statutory annual statement under the appropriate caption set forth in *Annual Statement Instructions*.

ACCOUNTS AND RECORDS

On January 1, 1998, the Company implemented a new general ledger system which includes general ledger, inventory, accounts payable, and fixed asset modules. An in-house electronic data processing system generates other records and processes premium and claim transactions.

A trial balance was extracted from the general ledger for the year ending December 31, 1999, and traced to the appropriate assets, liabilities, income, and expense exhibits of the annual statement. The Company's trial balances for 1996, 1997, and 1998 were also reviewed.

The internal controls were reviewed in conjunction with the review of the Company's major transaction cycles.

The Examiner used the ACL audit software package to access and test information maintained by the Company on the mainframe computer.

The Company provided a detailed data file of paid claims that varied by $4.3 million from paid claims reported in the 1999 Annual Statement and that included irrelevant transactions totaling $5.46 million.

It is recommended that in the future the Company retain a detailed data file of paid claims that reflects only its claim payment transactions as reported on the Annual Statement.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners for use in this examination.

The Company has a Corporate Compliance and Audit Department which reports to the Vice President of Corporate Ethics and Business Practices who in turn reports directly to the Board of Directors.

An independent consulting firm was engaged to review the Evaluation of Controls in the Information Systems questionnaire. The following findings and recommendations pertain to that review:

<u>Changes to Applications</u>

Review and testing indicated that some policies and procedures have not been designed to adequately address all the Changes to Applications Control Objectives identified. Formal documentation for authorizations and approvals is not adequately maintained. Programmers have access to codes in the test environment.

It is recommended that the Company institute effective policies and procedures to ensure that all change requests, authorizations, and approvals are documented by the appropriate level of management. Formal written approval procedures should be adopted to establish accountability. Further, the Company should ensure that only appropriate staff can migrate changes into production to reduce the risk of erroneous or unauthorized changes and to minimize system downtime and errors.

Programmers have access to the test environment. Restricting access to test and development systems can easily be achieved by normal access control methods. The Production Control Group should have the responsibility to copy and then compile the source program to the production libraries.

<u>Operations and Logical Security</u>

Physical access is not adequately monitored. Two inappropriate users were found on the OpCon/XPS User list. User ID and password security parameters are not adequate and passwords are not required to be changed periodically.

The Company has a documented Security Policy; however, the policies and procedures are not functioning as intended and do not adequately address the control objectives identified. Management does not monitor logical security of the computer environment and does not adequately control physical access to the data center. The Company has not established uniform logon standards for all of its computing environments. Testing revealed inappropriate and excessive access to System Administrator level accounts.

It is recommended that the accountability for the maintenance of appropriate security measures over information assets reside with the data and systems owners. Management should ensure that all information assets (data and systems) have an appointed owner who makes decisions about classification and access rights. While system owners might delegate day-to-day custodianship to systems delivery/operations group and delegate security responsibilities to a security administrator, the owners, should remain accountable for the maintenance of appropriate security measures.

The following specific actions are recommended to address the control weaknesses listed above:

- **Review, update, and effectively implement the Security Policy: An important step in establishing an effective information security program is the effective implementation and communication of the corporate Information Security Policy. The IS Security Policy should address access philosophy, access authorization, and importance of security awareness. A well-written security policy should include management's approved support of the policy and authorization procedures for gaining access to computerized information. Management must demonstrate a commitment to the policy by approving security awareness and training. The formulation of a comprehensive policy and educating the users provides the broad framework from which relevant operating procedures and practices should be developed. If the policy does not exist, or if the policy is not communicated, ineffective ad-hoc procedures may be practiced.**

- **Establish an effective access control strategy: The means of granting authorization and authentication of users prior to granting access to system resources is the most significant aspect in controlling access to data. Weak controls at this level can affect all other aspects. An effectively designed and implemented access control strategy can notably reduce the threat of internal hacking and unauthorized access by authorized users, a problem which consistently outranks external hacking in all information security surveys. Authorized users with inappropriate access to the "super user" accounts, such as Systems Administrator, or Security Administrator can manipulate the security system to give themselves excessive powers. These powers can be used to not only set up fictitious accounts, but also eliminate any record of it from the log.**

- **Creation of an adequate job description for the Data Security Administrator: The Data Security Administrator would generally develop the data classification methodology, implement security measures required to comply with the IS Security policy, and monitor the effectiveness of security over programs and data. Additionally, the security administrator should be responsible for the monitoring, modification, and enforcement of the access control strategy. The security function should be positioned within the Company's structure in a location that enables it to be an adequate control function and should be segregated from other departments that may affect its objectivity.**

- **Establish and enforce standardized and adequate logon/password controls: The compromise of logical access restrictions pose a serious risk of unauthorized and potentially disruptive access to computer systems. The password, in conjunction with the User ID, is the major key to establishing access controls over information systems. The Company should implement adequate logon/password controls, and should ensure that they are standardized across all platforms and applications. In addition, a periodic review of user access capabilities should be performed to ensure access is commensurate with each user's job responsibilities.**

FINANCIAL STATEMENTS

Assets

	Ledger Assets	Nonledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$107,487,717		$195,143	$107,292,574
Stocks:				
Preferred	719,935	$72,030		791,965
Common	32,768,663	12,078,047		44,846,710
Real Estate:				
Properties Occupied by the Company	6,765,451		624,598	6,140,853
Other Properties	10,756,557			10,756,557
Cash	3,540,228			3,540,228
Short-Term Investments	4,529,078			4,529,078
Other Invested Assets	2,335,154		266,935	2,068,219
Uncollected Premiums	7,246,352		515	7,245,837
Amounts Receivable Relating to Uninsured A & H Plans	16,500,000			16,500,000
Federal Income Taxes Recoverable	100,000			100,000
Guaranty Funds Receivable or on Deposit	5,080			5,080
Electronic Data Processing Equipment	7,039,139			7,039,139
Interest and Other Income Due and Accrued	2,299,250			2,299,250
Receivables From Parent, Subsidiaries, and Affiliates	559,608			559,608
Equipment, Furniture, Supplies, and Bills Receivable	11,650,207		11,650,207	
Miscellaneous Accounts Receivable	6,918,771			6,918,771
FEP Unearned Premium	(242,953)			(242,953)
TOTALS	$220,978,237	$12,150,077	$12,737,398	$220,390,916

Liabilities, Reserves, and Other Funds

Claims Unpaid	$58,200,000
Unpaid Claims Adjustment Expenses	1,200,000
Unearned Premiums	6,699,071
Taxes, Licenses, and Fees Due or Accrued	2,240,039
Federal Income Taxes	
Other Expenses Due or Accrued	17,449,333
Premium Deposits Made by Applicants Rejected or Not Yet Accepted as Members or Subscribers	368,534
Amounts Withheld or Retained for Account of Others	1,878,904
Liability for Amounts Held Under Uninsured Accident and Health Plans	16,500,000
Other Liabilities:	
National Accounts Deposits	32,986
Deferred Accounts Payable	5,970
Provision for Experienced Rating Refunds	5,074,202
Unearned Premium - FEP	(242,953)
TOTAL LIABILITIES	$109,406,086
Unassigned Funds	110,984,830
TOTAL RESERVES AND UNASSIGNED FUNDS	$110,984,830
TOTAL LIABILITIES, RESERVES, AND OTHER FUNDS	**$220,390,916**

Underwriting and Investment Exhibit

Statement of Income - 1999

UNDERWRITING INCOME		
Premiums Earned		$456,441,896
Deductions: Claims Incurred Expenses Incurred: Claim Adjustment Expenses Administrative Soliciting	 $424,839,870 21,982,513 25,753,146 4,697,748	
TOTAL UNDERWRITING DEDUCTIONS		477,273,277
NET UNDERWRITING GAIN OR (LOSS)		$(20,831,381)
INVESTMENT INCOME		
Net Investment Income Earned	$7,239,611	
Net Realized Capital Gain or (Loss)	6,846,479	
NET INVESTMENT GAIN OR (LOSS)		$14,086,090
OTHER INCOME		
Net Miscellaneous Income and Miscellaneous Expenses	$768,211	
ASC/Cost Plus Premium Income	122,928,776	
ASC/Cost Plus Health Claims Expense	(115,616,224)	
TOTAL OTHER INCOME		$ 8,080,763
Net Gain or (Loss) Before Federal Income Taxes		$1,335,472
Federal Income Taxes Incurred		(482,937)
NET INCOME		$1,818,409

Reserves and Unassigned Funds - 1996-1999

	1996	1997	1998	1999
Reserves and Unassigned Funds December 31, Prior Year	$112,679,517	$116,213,732	$118,971,232	$105,350,192
Net Gain or (Loss)	220,990	2,033,484	(8,134,117)	1,818,409
Net Unrealized Capital Gain or (Loss)	4,051,516	3,777,469	(6,011,126)	3,871,285
Change in Nonadmitted Assets	(738,291)	(3,053,453)	524,203	(55,056)
Aggregate Write-Ins for Change to Reserves				
Reserves and Unassigned Funds, December 31, Current Year	$116,213,732	$118,971,232	$105,350,192	$110,984,830

FINANCIAL COMMENTS

Admitted Assets

Bonds **$107,292,574**

The captioned amount equals the corresponding amount reported in the Company's December 31, 1999, Annual Statement and is comprised of the following:

Governments	$ 32,461,058
Special revenue and special assessments; nonguaranteed obligations of government agencies	27,118,986
Public utilities	4,057,150
Industrial and miscellaneous	43,655,379
Total	$107,292,574

All bonds are held under a custodial agreement at Northern Capital Trust Company, Fargo, North Dakota, a subsidiary of the Company.

The following exception was noted:

NAIC *Annual Statement Instructions* provide that deposits which are not for the benefit of all policyholders, claimants, and creditors must be reported on the Schedule of Special Deposits. The Examiners determined that the following two securities should have been reported on the Schedule of Special Deposits:

- U.S. Treasury Note 7.5% Due 2/15/05 $1,500,000 (Par Value)
- U.S. Treasury Note 7.5% Due 2/15/05 $ 200,000 (Par Value)

The $1.5 million U.S. Treasury Note is held in a restricted investment account in accordance with an agreement with Tri-West Healthcare Alliance Corporation and the latter security is pledged to the State of South Dakota.

It is recommended that the Company report deposits which are not for all policyholders, claimants, and creditors of the company on the Special Deposits section (Part 2) of Schedule E.

Preferred Stocks **$791,965**

The captioned amount equals the corresponding amount reported in the Company's December 31, 1999, Annual Statement and is comprised of the following:

BCS Plan Investors Corporation	$223,500
St. Paul Capital, L.L.C.	568,465
Total	$791,965

The St. Paul Capital, L.L.C. shares are held at Northern Capital Trust Company.

Common Stocks **$44,846,710**

The captioned amount equals the corresponding amount reported in the Company's December 31, 1999, Annual Statement and is comprised of the following:

Public utilities	$ 803,854
Banks, trust, and insurance companies	2,348,770
Industrial and miscellaneous - U.S.	33,016,140
Industrial and Miscellaneous - Foreign	4,451,450
Parents, subsidiaries, and affiliates	4,226,497
Total	$44,846,710

All common stocks (except for affiliated investments) are held at Northern Capital Trust Company.

The following exceptions were noted:

N.D. Cent. Code § 26.1-03-02.1 requires that all securities and investments of insurance companies must be valued in accordance with published valuation standards of the National Association of Insurance Commissioners including, but not limited to, the accounting practices and procedures manuals and publications by the Valuation of Securities office of the National Association of Insurance Commissioners.

The Company has not submitted its investments in the following three companies for valuation with the Securities Valuation Office (SVO):

Noridian Insurance Services, Inc.
Northern Capital Management
Triwest Healthcare Alliance

It is recommended that the Company submit the appropriate forms to the SVO for all unlisted securities in order to obtain a value established by the SVO for those securities as required by N.D. Cent. Code § 26.1-03-02.1.

NAIC *Annual Statement Instructions* and the *Purposes and Procedures Manual* of the SVO require insurers to attach the symbol "Z" to securities not valued by the SVO. The Company did not attach the symbol "Z" to seven securities not valued by the SVO at December 31, 1999.

It is recommended that the Company append the symbol "Z" to NAIC designations not obtained from the current edition of the NAIC Valuations of Securities or its Supplement and which is entered by the insurer under its own judgment.

Real Estate **$16,897,410**

The captioned amount is comprised of the following:

City of Fargo, Wells Fargo replat - Home office land	$ 626,739
Home office building	2,499,320
Building improvements	2,768,019
Land improvements	172,974
Storage building	73,801
Property occupied by company	$ 6,140,853
City of Fargo, Wells Fargo replat	$ 3,853,086
Lincoln Mutual Life building and improvements	1,280,852
Pioneer Mutual Life building and improvements	3,468,171
Village Square Office Park building and improvements	2,154,448
Investment Real Estate	$10,756,557
Total	$16,897,410

Cash on Hand and on Deposit **$ 3,540,228**

The items comprising the balance of Cash on Hand and on Deposit are as follows:

US Bank, Fargo, ND	$(2,979,897)
Community First Bank, Fargo, ND	(2,275,050)
Norwest Bank, Fargo, ND	196,827
Deposits Under $10,000	3,510
Certificates of Deposit	8,585,000
Cash in Company's Office	9,839
Total	$ 3,540,228

All certificates of deposit were in the physical custody of the Company as of December 31, 1999.

Short-Term Investments **$4,529,078**

The captioned amount equals the corresponding amount reported in the Company's December 31, 1999, Annual Statement and is comprised of the following:

Financial Square Treasury Institutional Portfolio	$4,029,078
Plan Investment Fund	500,000
Total	$4,529,078

All short-term investments are held at Northern Capital Trust Company.

Other Invested Assets **$2,068,219**

The captioned amount equals the corresponding amount reported in the Company's December 31, 1999, Annual Statement and is comprised of the following:

Twin Oaks, L.L.C.	$ 660,000
Parkview Estate Apartments	375,000
Long Island Apartments	288,000
Plains Commercial Associates	25,000
ND Small Business Investment Company, Ltd	200,000
Bank of North Dakota PACE Investment	257,049
Northern Capital Trust Company – Promissory Note	263,170
Total	$2,068,219

The following exception was noted:

The Company does not record adjustments to original cost for the Company's share of undistributed operating results for investments in joint ventures, partnerships, and limited liability companies as required by the equity method of accounting.

It is recommended that the Company account for its investments in joint ventures, partnerships, and limited liability companies using the audited GAAP equity method, under which the investment is carried in the balance sheet at the amount invested, plus the Company's share of GAAP net earnings (losses).

Uncollected Premiums $7,245,837

The Company included receivables from uninsured plans under the "Uncollected Premiums" caption of its 1999 Annual Statement instead of properly reporting those receivables on line 11 of page 2 "Amounts Receivable Relating to Uninsured A&H Plans" as required by NAIC *Annual Statement Instructions*. The amount of the receivables from uninsured plans at December 31, 1999, was $426,782.

It is recommended that the Company report premiums due only from insured business under the asset "Uncollected Premiums" rather than reporting premiums due from both insured and self-insured business under the "Uncollected Premiums" caption.

Miscellaneous Accounts Receivable $6,918,771

The captioned amount equals the corresponding amount reported by the Company in its December 31, 1999, Annual Statement and is comprised of the following:

A/R - Pharmacy Gold	$ 768,512
A/R – Wyoming	323,310
A/R – Blue Choice Settlement	2,600,000
A/R – NDPERS EPO Settlement	465,367
Medicare Related Receivables	2,572,607
Miscellaneous Receivables	188,975
Total	$6,918,771

Liabilities

Unpaid Claims **$58,200,000**

The captioned amount is the same as the amount reported by the Company its December 31, 1999, Annual Statement and is comprised of the following:

Fully insured/basic/pharmacy	$33,500,000
Medicare supplement	6,900,000
NDPERS	7,400,000
Federal Employees Plan	4,000,000
Stop loss	4,000,000
Lincoln Mutual	2,400,000
Total	$58,200,000

Unearned Premiums **$6,699,071**

The captioned amount equals the corresponding amount reported in the Company's December 31, 1999, Annual Statement and is comprised of the following:

Unearned premiums - Blue Cross	$3,794,688
Unearned premiums - Blue Shield	2,688,777
Other	215,606
Total	$6,699,071

Taxes, Licenses, and Fees **$2,240,039**

The Company overstated its ad valorem premium tax credit by approximately $185,000 for years 1996 through 1999. The overstatement by the Company consists of ad valorem credits taken on real estate owned but not occupied by the Company, such as space in the Lincoln Mutual building and space in the Pioneer Mutual building.

According to N.D. Cent. Code § 26.1-03-17, an insurance company is entitled to a credit against the premium tax due for an amount equal to the ad valorem taxes on that proportion of premises occupied as the principal office in this state.

It is recommended that the Company compute its ad valorem premium tax credit based only on the space it physically occupies to perform statewide functions.

Other Expenses Due or Accrued **$17,449,333**

The captioned amount equals the corresponding amount reported in the Company's December 31, 1999, Annual Statement and is comprised of the following:

BCBS dues	$ (3,284)
Accrued vacations	3,039,886
Accrued health benefits	9,977,834
Accrued retirement benefits	1,437,581
Accounts receivable – Medicare	(2,786,660)
Company health benefits	791,168
Sundry payable	68,929
Operating expense	134,207
A/P liability clearing	1,896,009
Marketing awards payable	151,000
Bank retention payable	42,144
National employee benefit	97,775
Automatic payable	53,366
Special assessment int. exp. pay.	14,455
Supplemental retirement payable	2,422,418
Serp receivable - affiliates	(297,849)
Marketing commissions payable	193,095
Accounts payable - Telephone	217,259
Total	$17,449,333

Amounts Withheld or Retained for Account of Others **$1,878,904**

The captioned amount equals the corresponding amount reported in the Company's Annual Statement and consists of:

Unpaid claims liability - Home out of area	$ (507,947)
Out-of-area program - Home	249,306
Deposits - Out-of-area program	(596,777)
Withholding taxes - North Dakota	214,477
EDS	550,000
Pharmacy Gold	415,027
Select choice settlement payable	780,355
FEP working capital payable	296,681
Mid States Development	212,533
Miscellaneous accounts	265,249
Total	$1,878,904

CONCLUSION

The financial condition of Noridian Mutual Insurance Company, Fargo, North Dakota, as of December 31, 1999, as determined by this examination for the four-year period under review is summarized as follows:

TOTAL ADMITTED ASSETS		$220,390,916
Liabilities	$109,406,086	
Unassigned Funds	110,984,830	
TOTAL LIABILITIES, RESERVES AND OTHER FUNDS		$220,390,916

The unassigned funds as determined by this examination represent no change from the amount reported in the Company's 1999 Annual Statement. The financial statement differences detected by this examination were not considered material.

Since the last examination conducted as of December 31, 1995, the Company’s admitted assets have decreased $13,120,001, its total liabilities have decreased $11,425,314, and its surplus as regards policyholders has decreased $1,694,687.

In addition to the undersigned, Department staff including Tom Bowman, CPA, and Carole Kessel, CPA and Chief Examiner, and the independent consulting firm of INS Services, Inc., participated in this examination.

Respectfully submitted,

David Weiss, CFE
Department of Insurance
State of North Dakota

SUMMARY OF RECOMMENDATIONS

It is recommended the Company amend its Administrative and Related Services Agreement with Noridian Insurance Services, Inc., to specify the method of compensation for services provided under the agreement.

It is recommended that the Company enter into a written cost-sharing agreement with Benefit Plan Administrators, Inc. (BPA) covering the administrative and management services provided to BPA and the basis for allocating expenses incurred by the Company.

It is recommended that the Company make the following adjustments regarding the reporting of ASC business:

- Report reimbursements from ASC plans on the appropriate line in Part 3 of the Analysis of Expenses.
- Include ASC expenses into the computation when computing the gain or loss on ASC business.
- Complete the Note to the Financial Statement disclosure related to ASC business in accordance with *Annual Statement Instructions*.

It is recommended that the Company report Medicare A and B expenses and Medicare A and B reimbursements in the Analysis of Expenses – Part 3 to the Underwriting and Investment Exhibit rather than as part of net miscellaneous income and expenses.

It is recommended that the Company report reinsurance assumed premiums at gross in Schedule S and in the Underwriting and Investment Exhibit and report commissions and expenses on reinsurance premiums assumed in the statutory annual statement under the appropriate caption set forth in *Annual Statement Instructions*.

It is recommended that in the future the Company retain a detailed data file of paid claims that reflects only its claim payment transactions as reported on the Annual Statement.

It is recommended that the Company institute effective policies and procedures to ensure that all change requests, authorizations, and approvals are documented by the appropriate level of management. Formal written approval procedures should be adopted to establish accountability. Further, the Company should ensure that only appropriate staff can migrate changes into production to reduce the risk of erroneous or unauthorized changes and to minimize system downtime and errors

It is recommended that the accountability for the maintenance of appropriate security measures over information assets reside with the data and systems owners. Management should ensure that all information assets (data and systems) have an appointed owner who makes decisions about classification and access rights. While system owners might delegate day-to-day custodianship to systems delivery/operations group and delegate security responsibilities to a security administrator, the owners, should remain accountable for the maintenance of appropriate security measures.

It is recommended that the Company report deposits which are not for all policyholders, claimants and creditors of the company on the Special Deposits section (Part 2) of Schedule E.

It is recommended that the Company submit the appropriate forms to the SVO for all unlisted securities in order to obtain a value established by the SVO for those securities as required by N.D. Cent. Code § 26.1-03-02.1.

It is recommended that the Company append the symbol “Z” to NAIC designations not obtained from the current edition of the NAIC Valuations of Securities or its Supplement and which is entered by the insurer under its own judgement.

It is recommended that the Company account for its investments in joint ventures, partnerships, and limited liability companies using the audited GAAP equity method, under which the investment is carried in the balance sheet at the amount invested, plus the Company’s share of GAAP net earnings (losses).

It is recommended that the Company report premiums due only from insured business under the asset “Uncollected Premiums” rather than reporting premiums due from both insured and self-insured business under that caption.

It is recommended that the Company compute its ad valorem premium tax credit based only on the space it physically occupies to perform statewide functions.